

January Examination Period 2025

ECN240 Financial Statement and Analysis Duration: 2 hours

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INSTRUCTED TO DO SO BY AN INVIGILATOR**

Answer ALL questions

Cross out any answers that you do not wish to be marked

Non programmable calculators are permitted in this examination. Please state on your answer book the name and type of machine used.

Complete all rough workings in the answer book and cross through any work that is not to be assessed.

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Examiner: Luca Larcher

Question 1

Record the following transaction in the appropriate T accounts, indicating the type of each account that you use (i.e. asset, liability, etc.). Each transaction should be identified by its number.

1. Sell goods for £90,000 on credit
2. Receive a cash payment of £50,000 from the credit customer
3. Buy a car for £25,000 in cash
4. Pay wages for £8,000
5. Open a bank loan for £5,000, receive the proceeds in cash
6. Purchase goods for resale for £15,000 on credit

[20 marks]

Question 2

Consider the following unadjusted trial balance at 31/12/2023:

	Dr (£)	Cr (£)
share capital		20,000
cash	11,000	
trade receivables	15,000	
buildings at cost	65,000	
accumulated depreciation (at 31/12/2022)		38,000
sales returns	2,000	
inventory (at 31/12/2022)	7,000	
retained profits		32,500
discounts received		1,500
doubtful debt provision (at 31/12/2022)		500
purchases	30,000	
sales		60,000
electricity	4,500	
machinery at cost	30,000	
accumulated depreciation (at 31/12/2022)		12,000

And the following additional information:

- The inventory at 31/12/2023 is 9,000.
- Buildings are depreciated using the straight line method, with 25 years of useful life and a resale value of 15,000.

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- Machinery is depreciated using the reducing balance method, with a 30% yearly depreciation.
- At the end of the year, there is an outstanding bill for electricity consumed in December 2023. The amount is 400 and it will be paid at the end of January 2024.
- A receivable for 1,000 is considered irrecoverable and needs to be written off. The company needs to take a provision for doubtful debts equal to 5% of receivables.

Prepare the adjusted trial balance at 31/12/2023. For each adjustment, show your workings and justify them.

[25 marks]

Question 3

Consider the following income statement for ABC Ltd for the year to 31/12/2023 (expressed in £):

sales revenue	155,870
cost of sales	- 54,600
gross profit	101,270
wages	- 25,610
marketing expenses	- 7,840
electricity expenses	- 6,870
depreciation	- 22,000
rent expenses	- 14,500
operating profits	24,450
change in legal cost provision	- 3,000
interest expenses	- 4,750
profits for the year	16,700

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Turn Over

And the following balance sheets for the same company:

	31/12/2023	31/12/2022
non-current assets:		
PPE at cost	170,000	120,000
accumulated depreciation	72,000	50,000
PPE	98,000	70,000
current assets:		
inventories	42,510	22,500
receivables	22,500	19,600
cash	31,630	22,500
prepaid rent	2,400	1,200
current liabilities:		
legal cost provision	3,000	
payables	36,240	47,200
electricity accrual	2,900	1,400
non-current liabilities:		
bank loan	65,000	34,000
bonds	20,000	
equity:		
share capital	40,000	40,000
retained profits	29,900	13,200

- a) Prepare the cash flows statement for the year ended on 31/12/2023. What have been the main uses and sources of cash for ABC Ltd. during the year?

[25 marks]

- b) Comment on the solvency and liquidity of the company using the ratios that you consider most appropriate. How have solvency and liquidity evolved in 2023?

[10 marks]

Question 4

Consider the following statements. For each one of them, state whether the statement is true or false and provide a brief explanation to support your answer.

- a) Dividends are an expense for the company and as such they reduce cash and profits.

[5 marks]

- b) Property, plant and equipment (PPE) is always valued at net book value, equal to historic cost minus accumulated depreciation.

[5 marks]

- c) Intangible assets need to be clearly identifiable.

[5 marks]

- d) The cash account will always show a debit balance.

[5 marks]

End of Paper